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THE SHORT TERM PROSPECTS OF THE WORLD ECONOMY
AS WE ENTER THE DECADE OF THE NINETIES

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THE SHORT TERM PROSPECTS OF THE WORLD ECONOMY
AS WE ENTER THE DECADE OF THE NINETIES

Source of Cuts

1-7 Department of Public Information Press Conference, UN Headquarters
New York, 11 January 1990

Mr. Goran Ohlin, Assistant Secretary-General for Development Research and Policy Analysis, Department of International Economic and Social Affairs, United Nations

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NARRATOR: Perspective, on an issue of international concern . In this edition: The Short Term Prospects of the World Economy as We Enter the Decade of the Nineties:

Cut 1
Goran Ohlin
Press Conf.
11 January 1990

The expectation is that growth in 1990, in the industrialized economies will be even slower than in 1989, however, not disastrously so. We don't expect a recession. The characteristic of policy in the industrial world has been to seek moderation and avoid booms so that you don't get any busts. And this has been successful. This is why we've had the longest period of expansion in the post-war period, of perhaps ever, in the OECD region.

NARRATOR: Goran Ohlin, head of the Office for Development Research and Policy Analysis in the UN Department of International Economic and Social Affairs, briefing UN correspondents in New York on his Department's year-end report on the world economic scene.

He continued his preview of the report with some observations on the extremely diverse situation in the developing countries:

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Goran Ohlin
ibid

We have some numbers at the end, which will show you that China has slowed down a good deal. It couldn't go on growing as it did in 1988 and her policy was indeed directed towards slowing down in order to control the inflation which was beginning to be alarming.

In the oil producing countries in West Asia, the situation was one of declining revenues and in Latin America, debt problems were serious although there was some improvement and we think that there will be some pick-up as a result of the policy improvements in Argentina, and Mexico, and Brazil, which dominate the Latin American economic developments.

Africa is of course a disaster area, economically speaking, and had declining per capita income again, as it has had for a very long time, and even with some slight improvement in our figures, that situation will continue in 1989.

The "peace dividend", as it's called, is not discussed explicitly, although we do raise the question,"what will be the impact of disarmament?"

Cut 2
Goran Ohlin
(Cont'd)

Well, politically it's good. Economically speaking, it does raise problems of conversion in the short run and employment. It will have to be gradual. Moreover, in many ways, this peace dividend has already been taken out in advance. That's why we have such imbalances in the U.S. economy and it's not the case that just because there will be savings on arms expenditures, that there will be more to use on something else. That will be a relief and perhaps greater equilibrium.

The debt problem well, we did conclude that, in spite of progress in 1989, conceptual progress, among other things, a recognition that you can't solve a debt problem by adding more debt to the debt that can't be serviced as things are and, consequently, you have to reduce debt in order to be able to cope. That was an advance. But in spite of that, we are far from a comprehensive strategy and Latin America will, to a lesser extent Africa, be heavily constrained by this for some time to come. In Africa, the debt problem is important too. But the overall problems of management are at least as important as the financial problems.

NARRATOR: The report indicates that 1989 was dominated by spectacular political developments. Super-power relationships and the political structure in Eastern Europe changed dramatically. In themselves these changes are epoch-making, and their implications for the world economy are far-reaching.

Mr. Ohlin was asked what effect these developments in Eastern Europe and appeals for economic aid, would have on aid commitments to the developing world?

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Goran Ohlin
ibid

It is still too early to tell frankly. You can develop the argument right away. It is possible that some governments will take out of their aid budgets and give to the East and to that extent, yes, that will be a certain loss. On the other hand, if you take a more serious view of these events, it is difficult not to come to the conclusion that developing countries are bound to benefit from the end of the cold war, the enormous waste which has been encouraged in arming developing countries, the ideological conflicts over economic policy which are coming to an end. So I believe that, in a broader view, the developing countries are bound to gain. And as I said , they don't all see it that way and there is a great deal of worry about this, especially in Africa.

READEX FICHE

NARRATOR: The prospects for an end to the debilitating arms race of the Super-powers change both the political and economic prospects of the world as a whole. And what will be the repercussions of future disarmament? What impact will this "peace dividend" - as it is called - have on the conversion of industrial capacity?:

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Goran Ohlin
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The problem is different from case to case. Obviously, the production of trucks for army use is no different from that for civilian use, you just paint them a different colour. And they are civilian and not military. But it's different for rockets and biological warfare equipment, and what not. Nonetheless, the bottom line is that real resources are being spent for military uses which will, in the future, be available for some other uses. Now, the budgetary impact is a different story - financial impact. There, as I said, it is likely that the first impact would be to make the deficit easier to reduce and not to allow Congress to spend more money on other things.

NARRATOR: In view of the radical political changes in the world, Mr. Ohlin was asked if he foresaw a new kind of economic model for the developing countries:

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Goran Ohlin
ibid

I don't think the problems have been so much one of the choice between capitalism or socialism or planning and markets and so forth. In Latin America and in many other developing countries, one of the big problems is really excessively complicated merchantilistic situation with a great deal of unnecessary licensing requirements and regulations and this has received attention suddenly over the last couple of years. Fernando de Soto's book has attracted great deal of attention and that has been one change.

Another thing that has happened is that the government, the state had in many countries, taken on very heavy responsibilities including that of operating big enterprises. This was for a long time, a very controversial matter, ideologically and politically. But in the end, the matter sort of resolved itself because many of these state operated enterprises were simply too costly to continue. They were running such enormous losses that the government couldn't afford to keep them going. In order to keep them going, it had to do two things, either collect taxes or else print money to keep them

Cut 5
Goran Ohlin
(Cont'd)

going. So there has been a great deal of divestiture, a great deal of privatization or downright closure, which has been healthy. Obviously the pendulum might swing too far. You cannot possibly deny the important role of the state in any economy in providing infrastructure of all kinds and in providing for social welfare and all that. So my impression is that many developing countries are now homing in on some kind of balanced approach to a mixed economy, which is pretty much what the industrial countries have done in the post-war period too.

NARRATOR: In March 1989, creditor governments adopted a proposal of United States Secretary of the Treasury, Nicholas Brady, under which loans from the International Monetary Fund and the World Bank - as well as from the Government of Japan - would help underwrite a negotiated reduction of commercial bank debt and debt servicing. These negotiations proved to be very difficult and protracted:

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Goran Ohlin
ibid

How do you make banks voluntarily give up the claims on the debtors. No one wants to be the first. The Economist once called it the race in which everyone wants to be the last, and that the difficulties - one of synchronizing, co-ordinating and making the banks recognize that these losses have in a sense already been taken up. As long as you say that these debts are not going to be collected in full, you'll say that there has already been a loss. But nobody wants to take his part of the loss. If the others give up their claims, then the debtor may be able to pay you. So, the Brady Plan has shown that like any other scheme of this kind, the negotiations with the banks are extremely difficult. They have been very drawn out, in the case of Mexico, as you know, and it's only by the active participation of the United States that it was possible to sew it up, in principle, when these negotiations started and to sew it up at the end the other day.

NARRATOR: The Brady Plan, said Mr. Ohlin, must be hailed as a great step forward by its sophistication and complexity, but, it also was too complicated:

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Goran Ohlin
ibid

You can't really duplicate that kind of thing, country after country. It would be too much trouble, too much work. In fact, I have in our other arrangements under the Brady Plan, with

Cut 7
Goran Ohlin
(Cont'd)

the Philippines, Venezuela, and so forth, which have been much simpler and concluded in a shorter time. But you know, talking about the Brady Plan, or the Baker Plan before that, is really a bit of a misnomer. It is an approach, it is not a plan, it is not a rigid specification of how to go about things. It's an approach and a framework which gives certain roles to the International Monetary Fund, in this case, and which tries to create the expectation that the banks will participate more enthusiastically than they actually do. So the discussion about the suitable or perhaps even the necessary approach to the international debt problem is not over. I don't think it will be solved by another Brady Plan or another pronouncement by the United States Secretary of the Treasury. There would have to be discussions about the institutional aspects and the possibility of some kind of conversion of bank debt or bank claims at the kind of deep discounts that the market sometimes shows. Mind you, a number of approaches are practiced not all of them under the Brady Plan. We know a lot about the situation, there's a secondary market for bad debts, as it were, and most of the efforts aim at taking advantage of the fact that the banks have already, by selling debt in the secondary market, recognized that they are not going to get back all the money. If you sell your claims on a country at 50 percent in the market, obviously, that's because you don't expect to get it all back. If you sell them at 10 percent, you don't expect to get very much back at all. And in such situations, as in Bolivia, one very reasonable and natural approach to the problem is to help that country to buy back its own debt at 10 percent. That's a debt reduction on a magnificent scale.

NARRATOR: Goran Ohlin, Assistant Secretary-General of the Office for Development Research and Policy Planning, with an appraisal of the world economy and its prospects for 1990.

And as this report indicates, the problems of the dollar, interest rates, external debts and commodity prices continue to weigh heavily over the world economy. However, according to the experts, in most parts of the world, the year 1989 was one of considerable policy change, of greater realism, and much convergence in approaches to stability and growth.

NARRATOR: (Cont'd) Although the short term outlook - that is through 1990 - is clouded and may not see much progress, over the medium term - rougly some five years down the road - the outlook for the world economy has greatly improved.

This has been Perspective - a programme produced by the international staff of United Nations Radio in New York. This is June Teufel.